ACCESS TO THE EUROPEAN ECONOMIC COMMUNITY FOR UNITED STATES CITRUS PRODUCTS

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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MARCH 29, 1982

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Orlando, Fla.

The subcommittee met, pursuant to notice, in the Board Room, Orlando International Airport, Hon. Paula Hawkins, presiding.

Present: Senator Hawkins.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator HAWKINS. This hearing for the Senate Agriculture, Nutrition, and Forestry Committee will now come to order.

For years, the Florida citrus industry has experienced great difficulty in expanding fresh citrus and processed fruit juice shipments into the EEC, primarily due to the tariff preferences granted by the EEC to certain other citrus producing countries. The purpose of this hearing is to compile the record, to review the problem, and to consider appropriate action to reduce trade barriers to Florida citrus products.

The hearing today is timely because of the present and future negotiations between the U.S. Government and the European Economic Community. At this very moment, the Department of Agriculture Deputy Secretary Lyng is in Europe discussing agricultural trade matters with EEC officials. In addition, consultations are scheduled for mid-April in Europe to discuss the U.S. citrus industry's petition under GATT [General Agreement on Tariffs and Trade] against the EEC concerning their restrictive trade policies for U.S. citrus.

As chairman of this hearing, I can assure you that the information gathered today will be forwarded and discussed again with Special Trade Representative Brock and Agriculture Secretary Block to insure that each agency fully understands the extent of the problem and its effect on the Florida citrus industry.

We will hear testimony this morning from various sectors of the Florida citrus industry concerning the detrimental effect of the EEC's discriminatory trade practices on the Florida citrus industry.

In addition, we have testimony to be presented by special representatives of those Federal Government agencies charged with the responsibility of representing the United States in agricultural trade matters.

I am pleased that the representatives from the U.S. Department of Agriculture and the Special Trade Representative Office can personally hear your concerns here in Florida, expressed by you personally. I hope we can have an informal exchange as well as a formal exchange on the record for us to take with us back to Washington.

Our first panel consists of a representative from the U.S. Department of Agriculture and the Office of the Special Trade Representative who will discuss the U.S. Government's efforts to free access into the EEC for Florida citrus products.

We will first hear from Ernest Koenig, Deputy Assistant Administrator of the Foreign Agricultural Service at the Department of Agriculture. Good morning, Mr. Koenig. We've met before and discussed this problem before. Do you have a statement?

STATEMENT OF ERNEST KOENIG, DEPUTY ASSISTANT ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARMENT OF AGRICULTURE

Mr. KOENIG. Yes, we have a statement to be distributed and with your permission, I would like to summarize in a few words about the case.[1]

Madam Chairman, ladies and gentlemen, the EEC preferential regime is long standing. The common agricultural policy started in 1962 and was generalized in 1967. From the beginning of the sixties, the European Economic Community had to take care of the trade interests of certain nearby countries with regard to the impact of its trade regime which was unfavorable to them.

In the first place, there was Greece and Turkey. When the Common Market was founded, it was decided that in the long run, Greece and Turkey would become members of the Common Market. For the time being they were to be merely associated. Certain tariff preferences and support were to be granted to them. However, there were certain difficulties. A dictatorship was established in Greece and the implementation of Greek association was therefore delayed. However, Greece later on received preferences for citrus and for certain other commodities. Since the beginning of 1981 Greece has been a member of the European Economic Community. Turkey is not.

The other reason which induced the Community to grant preferential treatment to certain Mediterranean countries is the fact that some of these countries—Tunisia, Algeria, and Morocco—had been formerly French colonies and had free access to France and also for a time to other members of the Community.

Therefore, the Community had to establish a special preferential regime, a special trading system for those countries. Then there was the case of Israel. Israel enjoyed special considerations in its relations with Europe and therefore got special preferences. And then having given preferences to a great number of Mediterranean countries for the reasons which I have mentioned, it was not, of course, possible to leave out other competing countries in the Mediterranean area all of which are more or less underdeveloped. Hence,

[1] See p. 27 for the prepared statement of Mr. Koenig.

Spain, Egypt, and Lebanon received preferences of varying degrees. Preferences are not the same for all Mediterranean countries.

The U.S. Government, from the very beginning, tried to overcome the effects of these preferences. We have no objection to special advantages for poor countries but, of course, we are against being unfairly treated and not treated in line with a commitment which the Community has undertaken in the GATT to give us most-favored-nation treatment which means to be treated in the same way as any other country.

These efforts culminated at the beginning of the seventies, when we had negotiations with the European Community under the leadership of the then U.S. Trade Representative, Mr. Eberle. In consequence of these negotiations, the preferences were to some extent mitigated in 1974. For certain periods of the year, the preferences were reduced.

Then, in 1974 the multilateral trade negotiations started; they lasted from 1974 to 1979. During this time, we made a major effort to get concessions for the citrus industry and, as a matter of fact, citrus was high on the U.S. request list. Unfortunately, we have not been successful except for grapefruits. For grapefruits, we got a concession, the tariff being reduced from 4 percent to 3 percent.

The mulitilateral trade negotiations ended in 1979. Since then we have continued to make strong efforts to get the preferences removed and to obtain U.S. producers equal treatment. These efforts, and there have been many efforts, did not prove successful. Therefore, the U.S. Government has now decided to bring the case to the dispute settlement mechanism of the GATT. The first meeting in this respect will take place on the 20th of April.

This is in a nutshell the situation although there are many more things to be said. I will be happy to answer any questions which might be posed. Thank you.

Senator HAWKINS. That's a nice thumbnail sketch of many years of work, Mr. Koenig.

What role does the Department of Agriculture play in the actual agricultural trade negotiations?

Mr. KOENIG. The Department of Agriculture plays a major role in technical and also policy preparations and does participate in conjunction with USTR and other agencies in trade negotiations. I, myself, have been negotiating for agriculture in the MTN in Geneva from 1974 to 1979.

Senator HAWKINS. Under what auspices were preferences provided certain Mediterranean countries?

Mr. KOENIG. The preferences were provided under the auspices of the council of the European Communities. These are the ministers of the 10 member states. These ministers have executive powers in their own countries but when they come to Brussels they have legislative powers and make the decisions for the actions of the European Community.

Senator HAWKINS. How does the EEC justify these preferences?

Mr. KOENIG. The EEC justifies the preferences in part because of the special relationship of the Mediterranean countries with the EEC, the nearness of their markets, and the dependence of those countries on the European market and on the Community. However, these questions have already been examined in the GATT. While the

European Economic Community in the GATT said that these preferences could be justified under the general agreement, the United States stated that they cannot be justified. Hence the situation up to now is that GATT has not condemned the preferences but it hasn't sanctioned the preferences either. The question is in limbo. We hope that the panel in Geneva might make a ruling on this issue.

Senator HAWKINS. There's a question that I'm often asked and I wonder if you might have the answer. Why does the EEC continue to impose high tariffs on foreign citrus from certain countries when it does not produce substantial quantities of citrus products?

Mr. KOENIG. The only citrus and citrus juice producing country up to now, up to 1981, was Italy; and now Greece is also a member of the Community. Italy gets certain advantages from the European Economic Community also in the field of citrus. Italy is afraid that if there were a reduction in tariffs, a reduction in protection, Italy would lose the benefits it gets now from the Community. This is one of the major reasons.

Senator HAWKINS. What year is Spain supposed to come into the common market.

Mr. KOENIG. It's not sure whether Spain will come in. Negotiations have been started but are not intensely pursued. It might come in by the mideighties. If Spain came in, and Spain is the major beneficiary of the preferences because it is the largest supplier of citrus to the Community, the other Mediterranean countries would, of course, lose a considerable part of their advantage granted through the preferences, and many people believe that in this case once Spain is in the Community the whole system might be changed, but how it might be changed and whether it would be changed is an open question.

Senator HAWKINS. In your written testimony, you point out that the United States was successful in achieving several temporary duty reductions in grapefruit and oranges in 1972 and 1973 and was successful in having permanent reductions for part of the marketing year beginning in 1974. What were the circumstances enabling the United States to achieve these limited reductions in margins of preference?

Mr. KOENIG. There are two sets of circumstances. First of all, there was in 1972, I believe, the Smithsonian Agreement, the dollar was devalued. The Europeans feared the dollar would be still more devalued and, therefore, they entered negotiations set up under Mr. Eberle, whom I mentioned before.

In the second place, at that time, England, Denmark, and Ireland joined the Community which had been a Community of six before and now became a Community of nine. In consequence of the enlargement of the Community, negotiations took place in which the United States sought certain compensation for the advantages which it lost in England, Denmark, and Ireland because those countries had joined the Common Market. That was the basis for these negotiations and for their success.

Senator HAWKINS. Are the circumstances today any different from those 8 or 10 years ago when we were successful?

Mr. KOENIG. Yes. The circumstances are different. They are different in many respects. First of all, Spain's access is nearer, though Spain's accession is uncertain. It is not sure whether Spain will come into the Common Market. On the other hand, you have the MTN. In the MTN, we had a number of demands addressed to the European

Economic Community. In the last stage of those negotiations, we reduced the number of requests to about 10 items. High on the list were citrus and citrus juice. However, we were not successful because there were other demands which we had made and many of these demands affected products produced in Italy. For instance, tobacco. It, therefore, seemed that the majority of the concessions requested from the Community were to be made by Italy and that was one of the reasons why we didn't get any concession at that time. The Community is in a process of change and hopefully we might succeed now where we didn't succeed before.

Senator HAWKINS. The citrus industry has filed three unfair trade actions against the EEC. What do you feel are the reasons for the relative lack of success on the part of the U.S. negotiators.

Mr. KOENIG. The major reason is the long delay which took place during the duration of the multilateral trade negotiations. The multilateral trade negotiations started in 1973 or 1975 and lasted 5 years. During this period, citrus was discussed over and over again, but it was part of an overall negotiation and only at the end of the negotiations could result be obtained.

Senator HAWKINS. We'll go next to Robert Simpson who is with us today. He's an international economist and adviser to our good friend, Special Trade Representative Bill Brock.

Mr. Simpson, do you have a statement?

STATEMENT OF ROBERT SIMPSON, ADVISER, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. SIMPSON. Yes, I do. I think it's also been distributed, but I'd like to summarize.[1]

I'm sure if Ambassador Brock knew I was here this morning he would ask me to give his greetings to you, Madam Chairman.

Ernie has covered very well, I think, the historical evolution of the problem that we're dealing with now, and I'll skip that part in my statement. I would add only that the Mediterranean agreements that he discussed do have other components that are important to the Mediterranean countries and the Community. They aren't just trade agreements but they also include economic assistance and technical assistance. Most of them are trade cooperation agreements and, therefore, broader than just trade.

In general terms, I think it's interesting to point out that the growth of U.S. citrus exports over the last decade has been rather good. In fact, it's been outstanding in terms of U.S. trade performance generally. I was somewhat surprised, I must confess, to find this because I've been focusing on the problems the citrus industry has been facing in Europe and in Japan; but when I looked at the numbers it was interesting to see that the value of U.S. fresh citrus exports increased from $96 million in the 1970 crop year to $416 million in the 1980 crop year. During that decade, even if you remove inflation from the value of those exports, that's an average annual growth rate compounded at 8½ percent a year; that's a very good growth rate. Exports of grape-

[1] See p. 28 for the prepared statement of Mr. Simpson.

fruit which are of special interest here, have been especially impressive during that time. They increased sevenfold over the period and averaged about 15 percent a year growth, adjusted for inflation.

In terms of processed products, the export performance over that same period has been almost as good—that, again, surprised me—and increased from about—well, it increased to $207 million in the 1980–81 crop year, and the growth rate would have been about the same as fresh citrus during that period.

Most of the credit for this performance obviously rests with the people here and elsewhere in the United States who work in the industry. I think part of it has also been due to the negotiating efforts already mentioned in Japan in the early 1970's when we opened up that market to grapefruit to a large extent, and to getting the duty down from 12 percent in the European Community to where it is now, and to other important concessions. Unfortunately, as everyone knows, there are still major areas where we are severely disadvantaged, where the duties in Europe are very high, and where importation in Japan is very restricted. We are working very hard on those issues at the present time.

Turning to the status of the 301 case that we are now following with respect to Europe, the preferences, as I mentioned, are embodied in a series of agreements with the Mediterranean countries some of which date back to the late 1960's. Since the agreements are inconsistent with the most-favored-nation (article 1) principle of the GATT, the Community and its Mediterranean partners have tried to find other GATT provisions to justify them. For example, when the earliest of these arrangements were examined by a GATT working party, it was claimed that the preferences were permitted because they were intended to lead to customs unions or free trade areas as provided in GATT article 24. In later agreements, the EC argued that the preferences were consistent with the general spirit and objectives of part 4 of the GATT which deals with the trade and development of developing countries. However, GATT reviews of all these arrangements have taken place in working parties, and all have been inconclusive as to the status of these arrangements under the requirements of the GATT.

There are also some differences between these various agreements. For example, the Cyprus agreement calls for the progressive establishment of a customs union, although Cyprus itself has apparently never reduced duties preferentially for the EC. So it's a one-way arrangement so far. There's no timetable as far as we know for establishing a customs union so we would still view that as inconsistent with the requirements of article 24. Israel has, in its agreement, provided some limited preferential treatment for a small amount of EC manufactured goods. So there is some two-way preference, but its very small on the part of Israel.

Since November of last year when we decided to move forward on the 301 case, we have done several things. We have informed the Community that we believe that our trade in citrus is being adversely affected and that the preferential duties are contrary to the Community's obligations under the GATT. We have stated our intent to formally invoke the dispute settlement provisions of the GATT. We have provided trade data and other analysis to European Community officials to demonstrate the adverse trade effects of

the preferences. The issue was also discussed at high level meetings in Brussels in December and again in Washington last month.

Failing to make progress on the issue in these bilateral discussions, we formally took the first step in the GATT dispute settlement procedure by requesting article 23 consultations with the EC. It now appears that these consultations will be held on April 20.

If progress is not made in resolving the issue in these consultations, the United States is prepared to request GATT Council consideration of our charges. Such a formal dispute settlement procedure could probably take several months and I can explain more about that later if you'd like. There are no specific time requirements under article 23 of the GATT at this time and there is no specific requirement in section 301.

In fact, I might say a bit more about that. Under the provisions of section 301, the Trade Representative would have 30 days following completion of the GATT dispute process to make recommendations to the President regarding any remedial or retaliatory actions by the United States against the Community if the the latter fails to cease its unfair trade practices. Obviously, the findings of the GATT Council as to whether the Community has violated its international obligations would be an important factor to consider.

Ernie has already discussed the reasons that the Community—many of the reasons—that the Community entered into these agreements and I don't want to go over that again other than to indicate that the United States, along with Europe, has an interest in the economic development, peace, and stability of the Mediterranean region. That is another policy factor in the process which is important and has to be borne in mind.

As Ernie said, we're not opposed to assistance to those countries, to help them in anyway possible, except for measures which disadvantage our trade and cause economic damage to our interest?

We have followed a negotiating process with the Community now for many, many years as has already been indicated. The thing that has changed now, apparently, is the willingness of the Community to continue seriously that negotiating process. The most recent discussion, there is a procedure under article 22 of the GATT was in November of 1980 and we received absolutely no satisfaction. There was no indication that the Community would consider negotiating with us, so at that stage it became clear that we would have to consider moving to the formal procedures of article 23.

I also might mention that in recent years the EC has extended citrus preferences to additional countries and it has increased the amount of some citrus preferences already given to other countries.

I think, in conclusion, Madam Chairman, I would just say that we intend to hold the Community to its international responsibilities under the GATT and to take whatever other actions may be necessary to resolve our citrus problems.

In the words of Ambassador Brock:

> Retaliation is not a preferred result in any 301 case. Rather our goal is to eliminate or modify a foreign practice which is adversely affecting U.S. interests. The authority to retaliate conferred by Section 301 is intended to provide the necessary leverage to obtain this result.

Clearly, if we have to resort to that step—retaliation—we will have failed to solve the problems facing the citrus industry. Thank you.

Senator HAWKINS. Thank you, Mr. Simpson. I meant to apologize for having you come all the way from Washington and have you spend a weekend in Florida with the rain, but the citrus industry needs it.

I know you have worked at the State Department, Department of Agriculture, and now in the Special Trade Representative's Office. How do you see the role of each of these departments or agencies in helping to lower the trade barriers to Florida citrus?

Mr. SIMPSON. Well, the U.S. Trade Representative's Office has paramount responsibility as you know for international trade policy. However, as a small office we do rely heavily on other agencies for various purposes. The Department of Agriculture plays the key role in analyzing our problems, making contacts with the industry, finding out what their priorities are, establishing strategies that would most benefit our trade, and providing data and background as well as legal analisis. In the State Department they have—in fact, we just recently requested the State Department to put together the actual texts of all these EC reference agreements and to examine them very carefully in terms of their provisions as they relate to the requirements of the GATT. As I mentioned, these agreements, not all of them are the same in terms of their requirements and what they offer.

So, we must have a complete analysis of each one of those agreements and the State Department—that's one of the things they're doing.

There are other agencies that are involved in the process. The whole section 301 procedure is, in the first instance, reviewed by what is called the 301 Committee, chaired by the U.S. Trade Representative's Office, but with a large number of agencies participating—Treasury, Commerce, Labor, International Trade Commission, and seven more. We draw, to the extent that we can, on their resources whenever they can help.

Senator HAWKINS. Will you explain the process of a section 301 petition under the GATT for us, and then tell us what stage the citrus industry's petition is resting at this moment?

Mr. SIMPSON. First of all, let me just indicate that section 301 covers a large variety of complaints and, depending on the type of grievance that is being presented, there may be a different procedure. For example, if the complaint were a subsidy complaint, which we do have, for example, in poultry and a number of other agricultural commodities, during the multilateral trade negotations a Subsidies Code was negotiated and there are specific time requirements in that code and procedures to be followed. It's about a 7- to 8-month process and we then domestically have about an 8-to 9-month process to allow us to complete Subsidy Code dispute settlement before we have to make our decision. But in the citrus case, the issue is not a subsidy but discriminatory trade practices of the Community. That, as I indicated earlier, is pursued under GATT article 23 and there are no specific time requirements. The general procedure is as follows: The first step is consultations with the other party in this case, with the Community under article 23, paragraph 1. There could be more than one consultation, if there's any hope for progress. Then, if that does not succeed, the next step is to request, the United States to request that at the next session of the GATT Council a panel be appointed to render legal findings or legal recommendations on the charges that we're bringing. That procedure is that the GATT Secretariat recom-

mends three to five names of independent GATT—people familiar with GATT—to the parties. Then there has to be agreement by both the Community and the United States on the members of this panel. This could take a period of time, perhaps 30 days, but hopefully no more than that.

Then the panel would meet with the parties to the dispute. The parties would submit written briefs outlining their cases and the panel could then respond with further questions which would be answered in writing. There could be oral arguments as well. This process is really unpredictable. Depending on the complexity of the case, it could be many, many months or it could take 3 to 4 months. We would hope that this case would not take longer than a few months but it is hard to predict.

Once the panel has completed its report it is shown to the parties before it is given to the GATT Council. The Council has the ultimate responsibility to either adopt the report, to reject it, or to make some recommendations. Once that has been done, the dispute settlement procedure is ended. As far as our domestic law is concerned we then have 30 days for the U S. Trade Representative to make his recommendations to the Preside

Senator HAWKINS. What stage is the citrus industry in?

Mr. SIMPSON. As I indicated earlier, the first step of this whole procedure is to be taken we believe now on April 20.

Senator HAWKINS. If the citrus industry is not satisfied with the results, what is the recourse?

Mr. SIMPSON. I am not aware of any existing legislative recourse beyond section 301 at this time. I would merely answer that by predicting that you at least will be satisfied with the efforts that we're going to make, because we're determined to do everything we can to make progress.

Senator HAWKINS. We've had strong commitment and strong interest in this problem from you and Secretary Block and Representative Brock. We did hold the hearing in the Agriculture Committee about the prospects of Spain entering the EEC in the future. Mr. Koenig has already spoken to that. Some days it looks like Spain will come in and other days a little bleaker, but if Spain were to enter, what would the effects be on the other EC countries and other citrus producing countries?

Mr. SIMPSON. Well, Spanish entry into the Community would be a momentous event for European agriculture. I believe the numbers are that if Spain entered the agricultural work force, the agricultural employment of the Community figure would increase by something like 30 percent.

So, it would be very significant. More importantly, it would be concentrated in certain types of products that would substantially enlarge the surplus position of the Community, in olive oil, for example, in citrus, in fruits and vegetables, and would provide extreme competition for the producers of these products in the southern regions of the Community—France and Italy. So the implications for this for existing members of the Community are enormous—especially the budgetary impact dealing with the surpluses, and trying to maintain the incomes of the poorer regions. That's an enormous challenge for the Community, and that's part of the reason that the timing of the accession of Spain is such a question.

Senator HAWKINS. It also makes it timely about our efforts right now to reduce trade barriers. In your testimony, you point out that the EEC negotiates individually with certain Mediterranean countries regarding preferential treatment. Are these long-term treaties or are they continuously renegotiated?

Mr. SIMPSON. Almost all of them now are of longer duration. There are only two, Cyprus and Malta, I beleive, that have first stage agreements with definite termination dates so that something new has to be negotiated for a second stage. But generally, they are of unlimited duration.

Senator HAWKINS. Since the first U.S. petition under the GATT, has the EEC extended preferential treatment to any of the other countries?

Mr. SIMPSON. Yes. When you say the first petition, of course, the first 301 petition would have had to have been after the 1974 act. There were predecessor petitions under the previous legislative provisions. The first petition was filed, I believe, in 1970 after Spain, Israel, Morocco, and Tunisia were either involved in negotiations or about to be involved in negotiations. All of the remaining preference agreements were after the first petition and some of them have been renegotiations.

Senator HAWKINS. In your testimony, you mentioned the dramatic increase of fresh and processed citrus exports and how dramatically they'd grown through the seventies. Doesn't this indicate to you that the Special Trade Representative's Office also sees the great potential for the expansion of the market out there such as the EEC?

Mr. SIMPSON. Yes. I think clearly there is although I must say it's difficult to analyze that partly because the seventies was a period when we started off with the world in pretty good economic shape until 1974, after that, in the latter part of the decade, we had very slow growth and citrus is generally considered to be a commodity where demand is impacted by income levels. It is a semiluxury item: people can do without it if they have to. Yet even in the late seventies, although there was a slowdown, citrus did very well. U.S. exports doubled from 1975 to 1978 in value terms. Another thing is per captia consumption levels. You would have to look at this in Europe and see how much more potential there is. In the European Community per capita consumption of fresh citrus generally is higher than it is here. There are cultural differences that explain that. So, it's a very difficult subject to analyze, but the fundamental fact is that if you were to eliminate a 20-percent duty on oranges going to Europe, I think that should have a significant impact. That's a pretty big price difference compared to Mediterranean suppliers.

Senator HAWKINS. Thank you, Mr. Simpson. I hope you understand how much we appreciate your being with us today; and hope you'll stay with us now and listen to the testimony given by the Florida citrus industry.

I'd like to introduce representatives of various sectors of the Florida citrus industry. This multibillion dollar industry is fortunate to have such representation and we want to thank you in behalf of the industry and the State and also your industriousness in getting here so early this morning.

The first witness will be Don Farmer of the Florida Department of Citrus. You have testimony, I understand, written. Would you like to distribute your testimony?

STATEMENT OF DON FARMER, DEPUTY EXECUTIVE DIRECTOR, FLORIDA DEPARTMENT OF CITRUS

Mr. FARMER. Senator, I've got one copy. I typed this at home yesterday. I'm sorry I don't have additional copies.

Good morning. My name is Don Farmer. I am the deputy executive director of the Florida Department of Citrus, and Senator Hawkins, we do appreciate this opportunity to share with you and Mr. Koenig and Mr. Simpson some of the concerns of the Florida citrus industry regarding what we feel are current trade barriers within the European Economic Community.

I would like to give you just a short, brief description of the Florida Department of Citrus especially for Mr. Simpson and Mr. Koenig's benefit.

The Florida Department of Citrus is a State agency of Florida charged with the responsibility of regulating the Florida citrus industry and assisting all segments of the industry in the marketing of its fruits and products.

It supervises the development of advertising campaigns to promote Florida citrus and citrus products in both domestic and export markets and conducts merchandising programs to increase demand for Florida citrus.

It administers the Florida Citrus Code which provides regulatory powers for the packing, processing, labeling, and handling of citrus fruits and products. Regulations are designed to insure the quality of citrus fruits and products. We also conduct programs in scientific, economic, and market research.

The Florida Citrus Commission created in 1935 serves as our board of directors. The operation of the department is financed by an excise tax on each box of citrus fruit produced and moved to commercial channels. Therefore, our funds do not come out of what we consider general revenue funds.

Now, for just a brief review of the Florida citrus industry. The United States is the world's largest producer of citrus, producing approximately 35 percent of the world's orange production and 70 percent of the world's grapefruit production. Of this, Florida is the major contributor, producing approximately 79 percent of the U.S. production of oranges and 77 percent of the U.S. production of grapefruit. Thus, Florida is responsible for some 24 percent of the world's citrus crop, made up of 28 percent of the world's supply of oranges and 54 percent of the world's supply of grapefruit.

Looking now at some of our concerns, the Florida citrus industry has for some time experienced difficulty expanding its fresh orange and its orange and grapefruit processed juice product shipments to the European Community, primarily due to tariff preferences granted by the EEC to other citrus producers to the exclusion of Florida and other U.S. producers.

The countries of Algeria, Morocco, Israel, and Tunisia currently enjoy preferential duty reductions of 70 percent in European tariff for imports of orange and grapefruit juices. The tariff for Florida and U.S. producers is 19 percent ad valorem on orange concentrate and single strength juice and 15 percent ad valorem both for concentrate and single strength grapefruit juice. Each of these duties is bound to the United States. These duty preferences became effective July 1, 1976.

Similar preferences of 40 to 100 percent exist for fresh oranges. The duty rate for fresh orange imports is 16 to 29 percent ad valorem from nonpreferential countries.

Basically these preferences mean that imports into the European Community from Israel, Tunisia, Morocco, and Algeria are now assessed import duties of only 5.7 percent ad valorem for orange juices and 4.5 percent ad valorem for grapefruit juices compared to the 19 and 15 percent ad valorem, respectively, for these juices from other third country suppliers including the United States.

Another area that gives us some concern, of course, is the value added tax policy of the European Community. Generally, value added taxes are levied on what is considered luxury items. It is our feeling that citrus, which is classified as a food item, should be taxed as a food item and not as a luxury item.

In direct action regarding the preferential treatment by the EEC, the Florida citrus industry filed a petition before the section 301 committee in the Office of the Special Representative for Trade Negotiations on October 27, 1976, specifically regarding and concerning these preferential duties.

U.S. governmental officials reported to us that multilateral trade negotiations were being held and it was felt that a solution to our concern could be handled through negotiations. However, with the passage of time it became obvious that this would not occur.

The Florida citrus industry appeared at hearings in Washington in January of 1977 and presented a special report to the U.S. Special Trade Representative, Rubin Askew, in January 1980.

Today, we remain basically where we have been for the past 5 years. Our petition still exists, but we are unaware of any positive progress until—I heard Mr. Koenig say that we would be meeting on April 20.

That is the conclusion of my comments. Again, I thank you Senator, I thank you for this opportunity.

Senator HAWKINS. Thank you, Mr. Farmer. Can you tell us which citrus products have the most to gain from reducing tariffs?

Mr. FARMER. I have two colleagues here. One who specializes in citrus, processed, and one in fresh; but I would say fresh oranges and processed grapefruit. Fresh oranges and processed grapefruit and grapefruit juice products.

Senator HAWKINS. Has the United States experienced any other form of discrimanatory policy by the EEC against citrus products?

Mr. FARMER. Well, it's probably a matter of interpretation. There is a reduced rate on fresh oranges, just down to 4 percent but it occurs when we don't have any production. Our normal rate is 16 to 20 percent, and I think there are some different barriers and procedures.

Senator HAWKINS. Has the United States always been able to meet the EEC sanitary standards, quality standards and so fourth?

Mr. FARMER. Yes, we have no problem meeting those standards, the standards in Florida are the highest in the world, continuous USDA inspection. So, we have not had any problems with those.

Senator HAWKINS. Do you meet the Brix level standards and labeling standards?

Mr. FARMER. Yes.

Senator HAWKINS. What has the Florida citrus industry done to promote market expansion in the EEC?

Mr. FARMER. Well, we have, of course, within our industry, we have individual companies who are constantly looking at this market, doing their own market strategy tests and own research. In the department of citrus, of course, we do have an international marketing division; and we work closely with these individuals and as well through FAS we have a three-party program which is for market expansion in foreign countries. We're spending probably somewhere in the neighborhood of close to $300,000 in this area at this time, but those funds are matched by importers in Europe as well as FAS dollars.

We have about 16 programs in effect at this time.

Senator HAWKINS. Do we have any representatives in Europe?

Mr. FARMER. Yes. We have a representative in Europe. Not as many as we'd like, but we do have representatives in Europe that assist us and, of course, then we have one department in our department of citrus, a three-person department. In fact, my man's there today or he would be here in my place today. He's in Europe currently.

Senator HAWKINS. Thank you, Mr. Farmer. Our second witness today will be Cliff Beasley of the Florida Citrus Processors Association.

STATEMENT OF CLIFF BEASLEY, REPRESENTING FLORIDA CITRUS PROCESSORS ASSOCIATION

Mr. BEASLEY. Good moring and thank you. I'm Cliff Beasley appearing on behalf of the Florida Citrus Processors Association.

We're a voluntary trade association representing all of the processors of citrus products here in the State of Florida. Our members utilize approximately 90 percent of all the citrus grown to produce the citrus products that are shipped domestically as well as exported through our member firms.

I, too, would like to thank the Senator for this opportunity for all of us to appear here and for those who came from Washington with some very good news to us this morning about the forthcoming meeting that we have long awaited to get this off the table so that it can be discussed. I think as far as my prepared statement, Mr. Farmer did such a good job and not to be repetitive I would like to amplify upon several areas that he discussed.

I think that his figures and his outline of concerns properly state the industries' position. We have always felt like preferential treatments were in direct violation of GATT, and we have very strong feelings still that that is where we need to attack our problem, in the first stage.

I hope that we will pursue the value-added tax situation that Mr. Farmer brought up and which has been part of our discussions in previous years. We recognize that these are individual country's decisions as to what levels and these levels are not constant within each country, but when you review the file there seems to be a common, conscious expression by all members that places orange juice, for example, in the luxury category and other food items are taxed way below these

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rates. In other words, you have 14 or 15 percent value added on orange juice and other commodities traditionally. Mr. Simpson, am I correct? Either 5 or 6 percent. Is that fair?

Mr. SIMPSON. Four maybe.

Mr. BEASLEY. Four as an average. We feel like the consumer has recognized citrus products, 100 percent citrus products from Florida in particular, as a food item and by nature it is a food commodity, and we would hope that in discussing this we could at least get some type of dialog going and have us recognized as a food commodity and not as a luxury item in the future. I don't know if this is possible. I don't know what the mechanism is. Maybe you could help us, to give us some insight if that would be permissible, Senator.

Senator HAWKINS. Sure.

Mr. BEASLEY. How do we address this particular problem? I think what we really are asking is that our Government pursue at every opportunity a way in which we could equitably compete in the same marketplace.

Senator HAWKINS. Mr. Beasley, you just heard the figures of approximately the increase in the foreign market that Mr. Simpson gave us. Are you aware if they have increased their consumption of processed fruit juice?

Mr. BEASLEY. The figures that our association publishes and receives from our members on exports of Florida citrus products would indicate that we have increased in all categories over a period of time. Now, our figures do include Canada so I can't break out specifically to the EEC or other locations. I do have a deficit in that, but reviewing the USDA figures for like periods of time would indicate total United States is also experiencing growth patterns over the last few years. We feel like that we are getting our percentages of those and we feel like it's very important to continue the three-party program which we have some questions as far as the funding from the Washington level, but when you get the industry participating, the department of citrus, the individual company here, the importer, and our Government, this program has been a real helpful vehicle for us and our figures will reflect that. We've had some struggles and I think if it hadn't been for some of the three-party programs, some of our people would not have been as successful as they have been in establishing an acceptability for 100 percent fruit juices.

Senator HAWKINS. How does the quality of concentrate from the Mediterranean countries compare with the quality of concentrate from Florida?

Mr. BEASLEY. I would think that the fact that we have continous USDA inspection and that our maturity standards for the raw fruit going into processing here in Florida is second to none. And knowing that, just the nature of the types of oranges that are grown in the Mediterranean area do not necessarily lend theirself to making the type and the quality of product that is produced here in Florida. I think this speaks for itself.

Senator HAWKINS. How about Italy?

Mr. BEASLEY. I have no working personal knowledge of the Italy situation as far as the varietal aspects of that particular situation, but certainly from the standpoint of the controls which we impose through a voluntary program and our continuous inspection, our raw fruit maturity standards. Again, I think that we would be able

to put our products against anyone in the world without any hesitation. I personally would not hesitate to take products from any of our customers and to go anywhere in the world and feel like that I was doing anything but walking in with an extra hand up on the table as far as the situation.

Senator HAWKINS. In your opinion, is it the value added tax or the tariff that is the single largest impediment to you?

Mr. BEASLEY. It would appear, Senator, that our most viable vehicle at the present time from the standpoint that the preferential treatment situation seems to be in direct violation; that that must have the most viable remedy. I stand to be corrected by our experts over here; but, again, any help that you could give us on the value added situation as far as how do we overcome individual country's taxing policies and I guess that's got to be a most delicate situation if we perceive the situation as I've stated earlier that would appear that we have found ourselves categorized by the EEC nations separate from other food products. Anything that we could do to overcome this is certainly going to be helpful. I guess—I can't answer the question directly because I don't know how viable the objection to a value added situation is so I'd have to say that we have to pursue the 301 petition at the present time.

Senator HAWKINS. Thank you so much. I'm sure we'll learn a lot after the April 20 encounter with the Europeans. Jim Emerson is with us today of the Florida Citrus Packers Association and I understand that you have some testimony you'd like to put in the record.

STATEMENT OF JIM EMERSON, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, FLORIDA CITRUS PACKERS

Mr. EMERSON. I'm like Mr. Beasley and Mr. Farmer. My secretary doesn't like to work on the weekend so I'm dealing from a handwritten note here.

Senator and Mr. Simpson and Mr. Koenig, my name is Jim Emerson, executive vice president and general manager of Florida Citrus Packers, a nonprofit, voluntary member trade association representing the fresh citrus packing and shipping industry of Florida.[1]

The 82 companies which constitute the membership of Florida Citrus Packers account for approximately 90 percent by volume of the fresh citrus which is shipped on an annual basis from Florida into both domestic and export channels.

Senator, we appreciate very much the opportunity here today that you've offered to us to discuss our concerns and to review the continuing difficulties which are encountered by Florida shippers attempting to compete in the Common Market. Because of time limitations here today, I will forego an in-depth review of the size and magnitude of Florida's fresh citrus industry.

I think frankly you gentlemen, and certainly the Senator, you are both quite aware of the importance of this industry to Florida's economy but I think perhaps more importantly to the subject of this hearing you recognize a tremendous role which agriculture has played with respect to the Nation's balance-of-payments situation.

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[1] See p. 31 for the prepared statement of Mr. Emerson.

Agriculture in general and Florida's citrus industry in particular have the capacity to significantly expand exports which will help to move the ledger balance back in favor of the United States with our trading partners around the world.

We in the citrus industry are ready and willing but we need help from our Government to bring the necessary pressures to bear in those areas where unjustified tariffs are applied and preferential concessions are granted to certain producing countries to the exclusion of other countries.

With respect to fresh oranges, the European Community imposes a seasonal adjusting tariff which ranges from a high of 20 percent ad valorem during the period October 16 through March 31 down to a low of 4 percent for the period May 16 through October 15. The timeframe outline is especially punitive for Florida fresh orange shippers because the highest tariff schedule corresponds directly with our major shipping season.

Of greater concern and detriment to the U.S. fresh citrus exporting industry, however, are the preferential concessions which are granted to certain nonmember Mediterranean countries by the EEC. For example, Algeria, Morocco, and Tunisia entered the EEC at a duty which is five times less than that assessed against U.S. oranges. Of course, as has already been expressed here today, shipments from Israel, Egypt, Cyprus, Lebanon, Spain, and Turkey also enjoy tariff rates which are much more favorable than that which is levied against U.S. orange imports.

I think it's easy for all of us to see that these various preferential concessions place the U.S. orange producer at a distinct and competitive disadvantage. Then, of course, when freight rates are added to the total cost of the U.S. citrus, it creates an almost impossible situation for us to compete.

We contend here today and have so expressed in petitions and position documents which have been filed on behalf of the Florida citrus industry over the past 6 years that these preferential concessions which are granted to certain nonmember countries are illegal and in direct violation of GATT. Because of these restrictive trading practices, U.S. produce exports to the European Community in the past decade have had their growth rate curtailed more than any other U.S. commodity. U.S. fruit and vegetable growers supply a mere 2 to 3 percent of the Community's produce imports which is far less than the U.S. 17 percent share of total EEC agricultural imports.

The demand for U.S. fruit and vegetables has grown very slowly in the European Community, more so than U.S. sales to other areas. The result has produced an actual decline from 1970 when the European Community accounted for 13 percent of U.S. produce exports down to the current level of only 10 percent. Our poor record in the European Community is not due to insufficient supplies. I want to emphasize that. Total U.S. exports of fresh produce exceeded $1.2 billion in fiscal 1981 but of this amount only about $115 million was exported to the European Community which is less than 40 percent of that total.

On the other hand, using Japan as an example, we have seen U.S. sales of fresh produce in that market grow from only $14 million in 1970 to $170 million in 1980 which is a twelvefold increase.

The difference is largely due to the complex, common agricultural policy of the European Community and its restrictive trading practice. If existing fresh produce policies are not changed, the U.S. ability to penetrate the European Common Market in the future is likely to be even less than in the past. Now, of course, which we've discussed already today, the anticipated entry of Spain into the Common Market in the future certainly complicates the situation because of that nation's ability to supply most of the EC's fruit and vegetable needs.

In conclusion, we feel that the European Community's current preferential tariff structure for citrus producing countries in the Mediterranean area are arbitrary and discriminatory. Moreover, we contend that the freight rate differential for Mediterranean countries versus the United States are such that there is a built in competitive advantage for these citrus producing areas even without the use of a tariff.

We, therefore, urge our negotiators to vigorously pursue the elimination of tariff preferences enjoyed by selected nonmember countries to the detriment of the U.S. orange producers.

We would respectfully encourage you to pursue much needed agricultural policy changes within the European Community through all available channels.

That concludes my written remarks and I certainly will be glad to respond to any questions you might have. Attempt to respond, let me put it that way.

Senator HAWKINS. The Califonria citrus industry joined in the 301 petition, did it not?

Mr. EMERSON. That's correct.

Senator HAWKINS. Did any other States join?

Mr. EMERSON. Arizona and Texas.

Senator HAWKINS. Have any other countries, to your knowledge, filed similar petitions?

Mr. EMERSON. I'm not aware of any countries. Mr. Simpson might, could speak to that, but I'm not aware of any that are pursuing similar type actions through some other type of—it may not be called 301. It may be something else, you know, in that particular country but I'm not aware of any that are being pursued at this time. Again, I'd yield to Mr. Simpson.

Senator HAWKINS. Are you aware of any?

Mr. SIMPSON. There have been no GATT actions filed.

Senator HAWKINS. Has there been any trend in the EEC consumption of fresh citrus over the past decade?

Mr. EMERSON. I think over the past 10 years—I don't have the specific data in front of me but I think if it were available it would reflect that the consumption has shown a steady increase in the European Community for say 8 of the last 10 years. I think just in the last couple of years we've seen somewhat of a leveling off effect in the European Community in terms of per capita consumption. And I think that probably is more due to recessionary trends which are affecting us all. It's worldwide.

Senator HAWKINS. You've heard Mr. Simpson testify that there's a cultural difference where they prefer fresh citrus over processed.

Mr. EMERSON. True. I think in Europe and certaintly we've seen this in the Far East, particularly Japan. They are very much a fresh-oriented people. I just wish we could instill that type of thinking in

our American people. It certainly would make my membership happy. We're trying but we're too convenience oriented or something in this country. We'd certainly all be better off if we consumed more fresh products.

Senator HAWKINS. Do you have any figures or projections if the 19-percent duty on oranges was lowered to 10 percent? How much that could expand your market?

Mr. EMERSON. I believe while our total exports of oranges from Florida in terms of raw numbers are very limited. I think that certainly that type of reduction would have a very significant positive effect on our ability to increase our exports. I would not hazard a guess in terms of what that number might be, but I think it would be certainly very appropriate to say that it would have a very positive effect on our ability to expand our imports into those—into the European Community.

Senator HAWKINS. Thank you, Jim, for being with us today. Our final witness is a man who found a secretary to work on the weekend or who can type like mad himself. Bobby McKown is with us. He's with Florida Citrus Mutual representing thousands of growers. He's a well known expert on this subject and we welcome you today, Bobby.

STATEMENT OF BOBBY McKOWN, REPRESENTING FLORIDA CITRUS MUTUAL

Mr. McKOWN. Thank you, Senator. Madame Chairman when you work for growers, you know, you work 24 hours a day almost. We were able to get our testimony put together and typed over the weekend and reproduced. I appreciate having the opportunity to come and be with you today.

First, I want to say to you, Senator, that we appreciate the work of your staff and the cooperation that they give us, not only in Orlando but in Washington and they have been most helpful to us and we're most appreciative of that and the excellent help that you have given to us. We say, thank you very much.

First, speaking for the citrus growers of Florida. I am sure that my views are shared by Florida processors and marketers as well. We thank you for your interest as I said before and we are looking forward and hopeful that we will be able to make much progress in the European Community as well as Japan because of the efforts that you are putting forth on our behalf.

Scandinavia, of course, is not a member of the Common Market. Our exports to it on a per capita basis are higher than they are to any EEC country. It is significant that the 19½ percent ad valorem tax is not applicable in either Norway or Sweden.

Florida exports to Europe including countries in and out of the Common Market, consist primarily of a 100 percent Florida frozen orange juice concentrate packed in 6 ounce, 8 ounce, and 32 ounce containers. It is this market which is best supplied by Florida alone.

Brazil is the major exporter of bulk concentrate which is reconstituted into consumer-size paper or glass containers of 1 liter each and this product package accounts for the largest market share in Europe. Brazil's price is lower than ours and we cannot readily compete in the EEC for that business.

We are able, because of our quality and our higher price not withstanding, to export some bulk concentrate to Scandinavia, Germany, Norway, and Sweden, but in these instances Brazil still outsells us in bulk containers. Our consumer-size business leads in these countries and part of the reason is the absence of the tariff.

In the familiar consumer-size containers, Florida's competition is primarily Israel.

In the EEC, we have a double-barreled competitive situation. On the one hand, the EEC grants a preference to Morocco and Israel. The tariff on frozen orange concentrate is approximately 5 percent. We strongly object to this preference, and we believe it is illegal under the GATT as others have mentioned today. However, that is not the worst of our problems.

The worst of our problems is a 19½ percent tariff which applies not only to the 6 ounce container or the 32 ounce packed in Florida plants, but it's also on the cost of the freight from Florida to Europe as well.

In addition, value added taxes, some as high as 25 percent, apply on orange juice. Since Florida orange juice is necessarily higher priced, a percentage tax amounts to more money on Florida products than it does on Brazilian products.

Additionally, since value added taxes apply on the retail selling price, a form of sales tax, then each time the product is handled from the ship, to the warehouse, distributor, to the shop, the 19½ percent ad valorem tariff escalates at each step including the basic 19½ percent tax itself, the tariff. Thus, that little small 6 ounce can is bearing a very heavy burden of tariff and taxes.

Italy is the only country in the EEC which produces frozen orange concentrate, but the concentrate Italy produces is an entirely different quality than that produced in Florida. It is low ratio and for all practical purposes is not usable as pure orange juice without the addition of sugar or sweeteners, and is used primarily as a base for orange drinks. Italy does produce some blood orange concentrate which is of a somewhat higher ratio, but the market is limited for that product.

Despite the EEC regulations providing that when there has been a crop disaster, tariffs can be suspended until full production is resumed, that is, in the United States or Italy having freezes. However, Italy continued to oppose all suspensions. Since 1977, Florida has had at least three major freezes and the last 2 years they have been back to back. During this period of time, Italy itself also has had a number of freezes thereby providing for a triggering of possible suspension of the tariff.

For whatever reason, when other EEC countries like the Netherlands, Germany, and the United Kingdom request tariff suspensions on frozen orange concentrate, Italy has so far vetoed any suspension of the tariff. As you know, any opposing country, a vote by EEC members will kill any proposal. It's been put forth also that if Italy didn't vote it down that probably one of the other countries would stand up and vote it down as well, but it happens that Italy is the one that has been casting the negative vote in the past. Freezes cause world prices to be high, thereby requiring that EEC consumers pay more for their orange juice, whether from the United States or Brazil and even though Italy does not produce the same concentrate product, this is the bedrock of our complaint.

Florida processors, marketers, using Florida grower's solids are seeking to preserve their European markets and they have privately negotiated with Italian growers and processors and will continue to do so in an attempt to reach an agreement and resolution of the marketing tariff problem. The basic problem in Italy is that the varieties currently producing fruit need to be pushed, planted to different varieties. This step would take a long time for new plantings to reach economic production; therefore, the Italian citrus growers who receive various types of payments from the EEC do not find it feasible to change their varieties to more palatable types.

In order to help Italy and simultaneously build our own export markets, Florida processors/marketers have put various proposals before their Italian colleagues to forego its veto of tariff suspensions. These proposals included a joint venture with Americans participating in the development of an Italian citrus from both technological and marketing standpoints. This does not mean that Italy does not have its own talents. Its technology in oils and bases is outstanding, and we can learn from them just as we can assist them.

If the EEC tariff, for example, would be cut to zero, a levy of 5 percent could be placed on all citrus concentrate from the United States, from Florida and put into the joint venture funding and paid directly to Italy.

This would reduce prices to EEC consumers and could help finance the development of the Italian citrus industry. It would require continued payments by the EEC, but the 5-percent levy could produce perhaps $1 million a year which could be helpful to Italian growers and processors.

It has also been brought to my attention that some Florida grower interests have proposed a joint Italian/American Citrus Research Council wherein the heads of the American grower marketers and heads of Italian processing plants and the respective citrus experiment station personnel of both countries could participate. The efforts too could be financed out of the 5-percent levy if the tariff is removed.

If Italy produced the same kind of citrus which Florida does, we could understand its opposition, but the oranges it produces are admittedly different and not acceptable for use in frozen orange concentrate as we and the rest of the citrus world know it.

As to Italian blood oranges, I understand that some American citrus growe/rmarketers have agreed to arrange for its distribution in consumer-size containers through some outlets in Europe which currently sell Florida frozen orange juice concentrate.

Italy itself has a law and regulation which prohibits the importation into Italy of frozen orange concentrate of any kind. Of course, this cannot apply to frozen orange concentrate which comes into Italy from other EEC countries because the EEC is a customs union which is comparable to that existing within the confines of these United States. As a result, direct shipments of frozen orange concentrate coming from Brazil go into Italy through Holland, Belgium, and probably the newest member, Greece. Thus, the Italian regulation is working to the disadvantage of Italy and processing which could be done in Italy is now being accomplished outside of the country of Italy.

In closing, Italy is strategically located to be a shipping and blending point between citrus producers in this hemisphere and Eastern

Europe. The Iron Curtain countries do not use their hard currencies for orange juice purchases. We believe Italy can work and barter with—develop barter agreements with Yugoslavia, Hungary, Romania, Eastern Germany, and Poland as well as the Soviet Union itself. That may be the greatest way to take excess Brazilian supplies off the market and reduce the restraining pressure on Florida grower's return on investment. Increased world consumption is the way to maintain favorable stabilized citrus prices and Italy must recognize that citrus, a world businesss, is not totally limited by national boundaries.

Senator Hawkins, we sincerely believe that the tariff suspension method is available, is justified and is needed to provide benefit to Florida citrus growers, processors and EEC consumers. We also believe that the U.S. Department of Agriculture and the Special Trade Representatives Office will do everything that they can to be of assistance.

We appreciate both Mr. Simpson and Mr. Koenig for coming and being here today. With your wonderful cooperation and the support coupled with other members of the Florida delegation assisting, we believe that a resolution of the problem can be negotiated. Florida Citrus Mutual and other industry segments stand ready to do their part.

We thank you for holding this hearing today and we believe the presentation today should be helpful to you in your negotiations. If you have any questions or need for additional data, we stand ready to respond. Thank you very much.

Senator HAWKINS. Thank you, Bobby. That's excellent testimony. I'd like to introduce the last gentleman sitting at the table, Bill Raley, who is a leader in the citrus industry and a nominee for the Policy Advisory Committee for the Special Trade Representative Office. We would like his attendance here to be reflected in the record.

At this time since we do have some time, I'm wondering whether you would like to open up this hearing and have an informal question and answer period?

Mr. Beasley had a question of Mr. Simpson. Not that Mr. Simpson can do anything about value added tax in other countries right now but we're here today to discuss the problems experienced by the citrus industry and I think if that would be helpful at this time, to discuss any questions that you would like to appear in the record. If they don't have any answers, I'm sure they'll tell you. We'll take this back to our Cabinet members, Mr. Block and Mr. Brock, who are doing wonderful things together. They really are team players. I want to tell you that, and are very sympathetic to our problems and know what I'm calling for, I think, before they answer the telephone when I get in touch with them. In many meetings we've had, they've been most responsive to Florida's problems and I'm thrilled that we're approaching the April 20 date and maybe there are some things that Mr. Simpson and Mr. Koenig would like to ask of you gentlemen. I would open the meeting up at this time to any exchange.

Mr. KOENIG. May I ask you, do you have exact statistics on the value added tax to the different member states and do all member states who classify citrus juice as a luxury item have higher rates?

Mr. MCKOWN. I think they do but I'm not sure if that's 100 percent. I believe that's the case.

Senator HAWKINS. That would be helpful for you to have the exact figures.

Mr. MCKOWN. We could make that determination for you.

Senator HAWKINS. Of the value added tax by states.

Mr. KOENIG. European States.

Mr. FARMER. I have some here for 1979. Belgium, orange juice, 14 percent, other foods 6. France 17.6, other foods 7.5. United Kingdom 8, other foods zero. Austria 17 for orange juice, other foods 8. Netherlands 18, other foods 4. Germany 11, other foods 4.5.

Mr. SIMPSON. That illustrates a very interesting point; that is, that they do not have a common agricultural policy as to value-added tax. I have an article in my briefcase that mentions that that is one of the characteristics of the uncommon agricultural policy.

Mr. MCKOWN. They're not consistent in any of their agricultural policies within the Common Market itself. It seems that each country, though it's made up of the Common Market, each one almost operates independently in regard to their tax structure. I'll have our representative in Washington pull together some of these numbers and get those to you.

Mr. SIMPSON. I might just mention while you're on that subject that the value added tax has, of course, as you indicated, Senator, been discussed here in the United States for some time. It has an advantage to a country in foreign trade since it is a tax that can be rebated on exported products and that's one of the things that's been attractive to U.S. interests, in finding ways that we can become more competitive in exporting our products, particularly industrial products, to the world. Under the General Agreements on Tariff and Trade, that is a legitimate tax which can be rebated on the exportation. We now rely heavily on corporate income tax and other taxes that cannot be rebated. However, the value added tax also has certain disadvantages and it has not received unanimous endorsement by any means.

Mr. BEASLEY. Mr. Simpson, is there any way to pursue in these discussions a standard policy for agriculture as it relates to an obvious—by just a few examples that Mr. Farmer gave, inequity between 100 percent citrus juices and other commodity items? Is there a mechanism other than just your efforts as you go over and sit down in April and continue to pursue this, or do you think that that is just something that we ought to put on the shelf?

Mr. SIMPSON. Well, there are no provisions of the GATT against a nondiscriminatory domestic tax. As you know, the EC value added tax applies to juice concentrate or single strength juice derived from concentrate produced domestically as well as on imported juice. So, in that sense, we have no international trading obligations to hold them to. It then becomes a question of policy of individual countries. I'm afraid that really there's just not a great deal we can do.

Mr. FARMER. Brazil is not a member of GATT. Right?

Mr. KOENIG. Yes, it is.

Mr. FARMER. It is a member of GATT?

Mr. SIMPSON. I might make one other comment in regard to Mr. Beasley's statement earlier on, just a clarification. You mentioned that we no longer treated Israel——

Mr. BEASLEY. As a developing nation.

Mr. SIMPSON. I have the GSP announcement that was made just recently of U.S. changes for the new GSP year, and what it says is

That we have graduated Israel in certain products but we still treat Israel generally as a developing country for the purpose of GSP. For certain products they have been graduated and are no longer getting GSP treatment for those products.

Mr. BEASLEY. If Brazil was in that same category——

Mr. SIMPSON. Yes, and they've also been graduated as have Mexico and other countries for certain products. We've decided they've reached a competitiveness, they no longer need to have GSP for certain products.

Mr. BEASLEY. If I may pursue that, if you would take the opportunity to look and see what the production of Israel's processing of both grapefruit and oranges were and latest figures. We consider that in excess of 6 million boxes in oranges and almost 7 million boxes in grapefruit and particularly in certain areas, grapefruit sections and these types of products. We feel like that they are significant producers and have matured their industry and certainly would want them included on any deletion as far as those items in particular, those items are concerned.

Mr. MCKOWN. I might offer that I believe in the EEC even though our greatest problem area, of course, is the shipping of concentrate into that market, the value added tax and the tariff itself is working counter to our really developing any additional volume into the EEC. There's no doubt about it, if we're able to reduce the tariff, Brazil would probably take a significant share of any increased shipments going into those countries. However, though, the reason we're supporting that is because every pound of solids that we can use in another market that means less pressure coming into the domestic market for Brazil and we believe that would be in the best interest of Florida citrus growers.

Mr. FARMER. Plus, we feel that we could get our share of our product in that market even though Brazil would be there competing as usual against us. We would widen that to those consumers.

Mr. MCKOWN. Plus the fact we'd have the availability of draw back dollars that we could use to thereby reduce our price and be more competitive with Brazil and we believe we can put a higher quality product in there and notwithstanding that price we could still enhance our position.

We've got two situations. We would sell more from domestic plus we would open another outlet for Brazilian solids thereby increasing consumption; thereby removing pressures on the United States.

Mr. EMERSON. Senator let me just comment if I could. Most of my testimony was directed toward fresh organges and just because it's encountered as far as entering the marketplace on that product, I would add though for the record we have enjoyed a very substantial growth in our exports in fresh grapefruit to the European Community which we're very grateful for and we're certainly very hopeful that we'll continue. I think the fact that there is a very low tariff on that product is somewhat in answer to your earlier question as to what we would do if the tariff were lowered on oranges. Europe has in recent years become a very important grapefruit market along with of course, Japan. We're hopeful that we can continue through individual efforts as well as the joint efforts of the FAS and the department of citrus to continue to expand and grow in that marketplace and make it an even more viable outlet for our fresh grapefruit

product here in the State which is very much on the upswing in terms of growth. We've got tremendous production on the line and we're looking for outlets for it and that's certainly great potential. So, I don't want everything I've said necessarily to be negative. We are positive in that respect. We feel there are some areas which are discriminatory against our Florida orange producers.

Mr. SIMPSON. Senator, I'd like to ask Mr. Emerson if he could provide any information or statistics on Florida's actual exports of oranges to Europe during the so-called winter period when the duty is quite high.

Mr. EMERSON. Right.

Mr. SIMPSON. If you could identify the types in rough proportions and varieties. In Washington, we have some difficulty coming up with data for individual States. We know what our national exports are, but we don't always know where they come from. It would be interesting to have some feeling for the potential that you feel you would have during that period.

Mr. EMERSON. I don't have that specific data in front of me but it is very readily available and I will provide it for you, what our total numbers have been over the past 10 years or so and what specific varieties are involved. That information is certainly available and I'l' be glad to make it available to you.

Mr. MCKOWN. Senator Hawkins, I know we're talking about the EEC today, but I think I'd like to say to you that I know of your recent interest and help in pursuing opportunities to open up the Japanese market for grapefruit concentrate. I think it's very timely today that we have these two gentlemen here to again say that if we will be successful in our negotiations with the Japanese to remove the import barriers, liberalize our shipments of grapefruit concentrate into the Japanese market; that it would do a great deal to stabilize the grapefruit marketing situation in the United States. We are hopeful that that will come about.

Senator HAWKINS. It's a ready market and our countries are talking which is an excellent point to make here today. Most problems can be solved by getting the right people at the right table and that's why we're so pleased to have everybody around this table because you can see that when we send our representatives to the table to negotiate they don't always have the statistics available. America is made up of a lot of people, a lot of special interests, and a lot of statistics that are not broken down as we would like. I know in my experience in the committees I sit on, we get block figures, lump sums which are not spun out which is most important. When I talk to the proper people about Florida matters, I also discuss the national and international interests which is my responsibility, however my primary responsibility is that of Florida. I believe we have the right people in the right places today, provides adequate information, to resolve this problem. As each of you represent a certain segment of the industry here and a very substantial percentage of Florida's economy, that you make it your responsibility to get the figures to the right people and especially prior to this April 20 meeting that we have all anticipated.

Any further statement, Mr. Simpson?

Mr. SIMPSON. I want to add to my previous request. I do not want to ask for any confidential information, but if you could also, Mr.

Emerson, provide information on freight rates. You mentioned that as being a portion of the problem with the duty in Europe as applying to the freight rate as well. It would be helpful if we could know some representative figure for freight rates to Europe.

Mr. EMERSON. All right. I know with talking in the last few days with some of our shippers, trying to pull some specifics together over the last few days, some of the numbers given to me have indicated that freight cost actually exceeded the value of the product itself.

Mr. SIMPSON. We've heard that same thing from some of the Western shippers who have a greater distance to go. The interesting thing is that most freight rates now, I suppose, are rather low in historical terms because of the general recessionary conditions in the world. And if today's rates are still a problem tomorrow's may be worse.

Mr. EMERSON. Japan, of course, is a major exporting country so you'd have a good freight rate situation coming back from Japan which helps in our freight going to Japan but we just don't export from Europe back into the United States to the extent that we do from Japan and; therefore, you don't get the freight breaks. So, we have a very heavy rate going over.

Senator HAWKINS. We want to thank all of you who participated here today. I think it's a great example of how we can get Federal, State, and industry representatives together when we have a problem to discuss in a hearing of this nature and I'm always proud to represent the citrus industry that's so highly efficient and independent.

As I sit on the Agriculture Committee I am amazed at how self-sufficient the citrus industry is, ready to compete at all times and asking for little Government intervention in comparison to other commodities that we deal with on the Agriculture Committee.

Mr. Koenig and Mr. Simpson, you realize how serious this problem is to an industry that is so market oriented. We would like to see the trade barriers reduced and allow open competition which would allow the industry to have access to the European Community's 270 million potential citrus consumers.

I am delighted that for the first time we were able to sit down and discuss these things and hopefully you'll get your statistics to these gentlemen as we go to these meetings. I think we'll find that the meeting April 20—I'm optimistic that we will be able to come out of that meeting with a better result than we've ever had before. We've been plagued for a long time by trade barriers to the citrus industry and I want to pledge my personal support to the citrus industry. I'm confident that through the combined efforts of representatives like Mr. Koenig, Mr. Simpson, Mr. Brock, and Mr. Block and the gentlemen here that we'll be able to solve these problems and allow more Europeans to enjoy Florida citrus as do millions of Americans.

At this time, we'll conclude this hearing.

[Whereupon, at 1:15 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF ERNEST KOENIG, DEPUTY ASSISTANT ADMINISTRATOR, INTERNATIONAL TRADE POLICY, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

STATUS OF U.S. ACTIONS REGARDING EC TARIFF PREFERENCES ON CITRUS PRODUCTS

Summary

The EC system of tariff preferences for associated states and Mediterranean countries has been a long-standing matter of concern to the U.S. citrus industry. Since the inception of the preference scheme in 1970, the U.S. citrus industry has filed with the U.S. Trade Representative three unfair trade practice complaints against the EC.

In the most recent petition, filed in 1976 under Section 301 of the Trade Act of 1974, citrus interests in Florida, California, Arizona, and Texas charged that the tariff preferences given to Mediterranean countries on citrus products were inconsistent with the General Agreement on Tariffs and Trade (GATT) and represented an unreasonable barrier to U.S. exports.

Since the filing of that petition, the United States has attempted to negotiate a satisfactory resolution to the problem in several fora, including the Multilateral Trade Negotiations and in bilateral consultations. The EC has refused to do more than discuss the issue. Therefore, the United States is now preparing to pursue the problem under the formal dispute settlement procedures of Article XXIII of the GATT.

Background

In November 1976, the domestic citrus industry filed a petition under Section 301 of the Trade Act of 1974, alleging that tariff preferences granted by the EC on citrus were inconsistent with GATT and represented an unreasonable barrier to U.S. exports of citrus to the EC. In its complaint, the U.S. citrus industry requested that all tariff preferences be eliminated on fresh oranges, fresh tangerines, fresh lemons, fresh grapefruit, orange juice, lemon juice, grapefruit juice, grapefruit segments, and pectin.

From the inception of the preferential system, the United States has actively sought most-favored nation (MFN) tariff reductions from the EC on citrus fruits in order to reduce the margins of preference. These efforts were only successful in achieving several temporary duty reductions on fresh grapefruit and oranges in 1972 and 1973, and permanent reductions for part of the marketing year beginning in 1974. However, these duty reductions for the most part apply only during the time of year when EC citrus is *not* marketed. In the winter months when European citrus is on the market, the duty for fresh oranges, for example, remains unchanged at 20 percent. The countries with preferences pay duties in this period ranging from only 4 to 12 percent on citrus.

Consequently, U.S. fresh orange exporters suffer a competitive disadvantage during this period. Tables 1 and 2 show the current level of EC preferential duties for all products subject to the scheme as well as the duties applied to non-preferential (MFN) countries, including the United States. U.S. exports of fresh tangerines, grapefruit, grapefruit segments, and grapefruit and orange juices all face stiff competition from many Mediterranean countries because of the preferential duties.

While it is possible to quantify the adverse impact that the preferences have had on U.S. citrus trade, common sense argues that the preferences obviously put the United States at a competitive disadvantage in the EC citrus market. The preferences range from 40 to 100 percent on the individual citrus products. Such preferences combined with the geographic advantage of being located near the Community give the Mediterranean citrus producing countries a substantial competitive advantage over the United States.

Attempts to resolve this matter during the MTN and after the MTN in bilateral consultations have been unsuccessful. The EC has agreed only to reduce the duty on grapefruit from 4 to 3 percent ad valorem. The United States therefore requested consultations with the EC under GATT Article XXIII:1 in 1980. Those consultations, held on October 3, 1980, were totally unproductive. The EC maintained its position that its preferences do not damage U.S. citrus exports. A year has passed since those consultations were held. The United States is now preparing to proceed to the more formal dispute settlement procedures of GATT Article XXIII.

The United States believes that the EC's Mediterranean preferences are inconsistent with the GATT Article I which states that the most favorable access conditions provided to one country for a given product must also be provided to all other countries. The preferential duties applied by the EC on citrus products from Mediterranean countries are considerable lower than those applied to citrus products from the United States and, therefore, Mediterranean citrus products are provided more favorable access conditions than are products from the United States.

TABLE 1.—EC DUTIES ON CITRUS OTHER THAN FRESH ORANGES

[In percent]

Country	Fresh tangerines	Fresh grapefruit	Fresh lemons	Orange juice	Lemon juice	Grapefruit juice	Grapefruit segments	Pectin (dry)
Most favored nation	20.0	3.6	8.0	19.0	19.0	15.0	18.9	24.0
Algeria	4.0	.7	1.6	5.7	19.0	4.5	3.8	18.0
Morroco	4.0	.7	1.6	5.7	19.0	4.5	3.8	18.0
Tunisia	4.0	.7	1.6	5.7	19.0	4.5	3.8	18.0
Israel	8.0	.7	4.8	5.7	19.0	4.5	3.8	18.0
Egypt	8.0	.7	4.8	19.0	19.0	15.0	18.9	24.0
Jordan	8.0	.7	4.8	19.0	19.0	15.0	18.9	24.0
Cyprus	8.0	.7	4.8	5.7	19.0	4.5	3.8	24.0
Malta	20.0	3.8	8.0	19.0	19.0	8.0	18.9	24.0
Spain	12.0	3.8	4.8	19.0	19.0	15.0	18.9	18.0
Greece	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Turkey	5.6	(1)	2.8	13.3	13.3	3.1	2.6	12.0
ACP	4.0	(1)	8.0	(1)	(1)	(1)	(1)	(1)
CSP	20.0	3.8	8.0	19.0	18.0	8.0	10.0	12.0

[1] Signifies duty-free entry.

Note: CXT numbers for these products are: fresh tangerines (8.02B), fresh grapefruit (8.02D), fresh lemons (8.02C), orange juice (20.07BIIa.1), lemon juice (20.7BIIa.3bb), grapefruit juice (20.07BIIa.2), grapefruit segments (20.06 BIIb.2), pectin (13.03BI).

TABLES II.—EC DUTIES ON FRESH ORANGES

[In percent]

Country	Oct. 16 to Mar. 31	Apr. 1 to 30	May 1 to 15	May 16 to Oct. 15
Most favored nation	20.0	13.0	6.0	4.0
Algeria	4.0	2.6	1.2	.8
Morocco	4.0	2.6	1.2	.8
Tunisia	4.0	2.6	1.2	.8
Israel	8.0	5.2	2.4	1.6
Egypt	8.0	5.2	2.4	1.6
Jordan	8.0	5.2	2.4	1.6
Cyprus	8.0	5.2	2.4	1.6
Malta	8.0	5.2	2.4	1.6
Spain	12.0	7.8	3.6	2.4
Greece	(1)			
Turkey	5.6	3.6		
ACP	4.0	2.6	1.2	4.0

[1] MTN duty rate for oranges is unbound in Oct. 16 to Mar. 21 period.

Note: CXT numbers for fresh oranges are: Oct. 16 to Mar. 31 (8.0 AId); Apr. 1 to 30 (8.02AIa); May 1 to 15 (8.02AIb); May 16 to Oct. 15 (8.02AIc).

STATEMENT OF ROBERT S. SIMPSON, OFFICE OF U.S. TRADE REPRESENTATIVE

It's a pleasure to be here this morning to discuss the current citrus section 301 case with respect to the discriminatory trade practices of the European Economic Community.

In general terms, we can take considerable satisfaction in the export performance of the U.S. citrus industry over the past decade. The value of U.S. fresh citus exports increased from $96 million in the 1970/71 crop year to $416 million in 1980/81. Even discounting for inflation, this represents a 223 percent increase in exports in 10 years, or a healthy real average growth rate of 8.5 percent per year. Exports of grapefruit, of special interest to Florida and Texas, have been especially impressive, registering a 7-fold nominal increase over the period, or an inflation adjusted average growth rate of almost 15 percent per year.

U.S. exports of processed citrus products grew almost as rapidly (217 percent in real, inflation-adjusted terms) during the 9-year period 1971/72–1980/81, registering a total value of $207 million in the latter year. Frozen orange juice concentrate accounted for over half ($110 million) of last year's exports of processed products. The two most successful export growth categories over the 9-year period were orange juice concentrate in containers larger than one gallon (almost a 10-fold nominal increase) and frozen grapefruit juice concentrate (a 6-fold nominal increase).

Most of the credit for this successful export record goes, of course, to the citrus industry which has developed sophisticated marketing systems, opened up new markets for U.S. products, improved quality and lowered costs through better production and marketing techniques . . . and, not least important kept pressure on the Federal Government to remove foreign barriers to trade.

THE EUROPEAN ECONOMIC COMMUNITY

Because of its large population and purchasing power, the European Community has been an important, but unfortunately reluctant and protected market for U.S. citrus. In the Dillon Round negotiations of 1960/61, the EC bound to the United States its duties on most citrus products, but at relatively high levels ranging from 12 percent to 25 percent ad valorem. Remaining unbound were its duties on oranges from October 16–March 31 (20 percent); its duty on tangerines (20 percent); its duty on lemons (8 percent); and its duty on pectin (24 percent).

In the Kennedy Round, the United States succeeded in getting the EC duty on grapefruit halved (to 6 percent). Otherwise, however, only small duty reductions were made on some citrus products (e.g., the orange juice duty was cut from 20 percent to 19 percent).

By 1972 the Community was negotiating the accession of the United Kingdom, Denmark, and Ireland and had already entered into preferential trading arrangements with Spain, Israel, Morocco, and Tunisia. The combination of these events clearly threatened U.S. citrus exports and the United States succeeded in obtaining temporary duty reductions on oranges from June 1–September 30 at a level of 8 percent in 1972, and 5 percent in 1973. Grapefruit also received a temporary duty reduction to 4 percent during April–December in 1973 and 1974.

In the GATT article XXIV:6 negotiations pursuant to the accession of the United Kingdom, Ireland, and Denmark, the EC agreed to permanently bind its orange duties during the summer period to the levels that exists today (ranging seasonally from 4–13 percent), and to bind the grapefruit duty at 4 percent. These changes became effective in 1974 and 1975.

Finally, in the Tokyo Round negotiations, the EC cut its duty on grapefruit from 4 percent to 3 percent.

While this record of progress in reducing European barriers to U.S. exports cannot be considered unimportant—it has been especially helpful to the Florida and Texas grapefruit industries—the U.S. citrus industry knows that the record tells only half the negotiating story. It does not tell of the long and frustrating efforts of U.S. officials during the Tokyo Round to obtain concessions on winter oranges, orange and grapefruit juice, and lemons where the United States remains disadvantaged by relatively high MFN import duties while Mediterranean suppliers pay much lower preferential duties. It does not tell of further efforts following the Tokyo Round, including formal consultations under article XXII of the GATT in November 1980, to convince the Community to negotiate solutions to these U.S. citrus concerns. Moreover it does not tell of the efforts of the Florida industry to work with Community processors and distributors toward mutually beneficial arrangements to promote the sales of both U.S. and Community processed products.

SECTION 301 CASE ON CITRUS

In 1976 the U.S. citrus industry filed petitions under section 301 of the 1974 trade act alleging that EC preferential arrangements for citrus are inconsistent with the GATT and represent an unreasonable barrier to U.S. exports. The pref-

erences are embodied in a series of agreements with Mediterranean countries dating to 1969. Since the agreements are inconsistent with the most favored nation (article I) principle of the GATT, the Community and its Mediterranean partners have tried to find other GATT provisions to justify them. For example, when the earliest of these arrangements were examined by a GATT working party it was claimed that preferences were permitted because they were intended to lead to customs unions or free trade areas (as provided in GATT article XXIV). In later agreements, the EC argued that the preferences were consistent with the general spirit and objectives of part IV of the GATT relating to the trade and development of developing countries. However, GATT reviews of all of the EC preferential agreements currently in effect have been inconclusive.

The number of countries that receive citrus preferences from the Community is now apparently 12 (we are still checking to see whether some of the Mediterranean countries that have little or no citrus production have nonetheless received citrus preferences). There are, however, some differences between the various agreements. For example, the agreement with Cyprus calls for the progressive establishment of a customs union, although Cyprus has apparently never reduced duties preferentially for the EC. Israel has, in its agreement, provided limited preferential treatment for a small amount of EC manufactured goods. Spain's agreement was adjusted in 1977 to reflect Spanish application for full EEC membership.

Citrus preferences now in effect cover a wide range of products—fresh oranges and tangerines, lemons, grapefruit segments, pectin. They give a discriminatory advantage to Mediterranean suppliers and cover about 85 percent of EC fresh orange imports, over 50 percent of EC lemon imports, and over 60 percent of EC grapefruit imports. The tariff reductions for beneficiary countries range from 25 percent to 100 percent of the MFN duty rates.

Since November last year when we formally decided to move forward on the citrus 301 case, we have done several things. We have informed the Community that we believe that our trade in citrus is being adversely affected by the EC preferential citrus arrangements and that such preferential duties are contrary to the Community's obligations under the general agreement on tariffs and trade (GATT). We have stated our intent to formally invoke the dispute settlement provisions of the GATT. We have provided trade data and other analysis to European commission officials to demonstrate the adverse trade effects of the preferences. This issue was also discussed at high level discussions in Brussels in December and again in Washington last month. Failing to make progress on the issue in these bilateral discussions, we formally took the first step in GATT dispute settlement by requesting article XXIII consultations with the EC. It now appears that such consultations will be held on April 20.

If progress is not made in resolving the issue in GATT consultations, the United States is prepared to request GATT Council consideration of our charges. The procedure would be for the Council to appoint a panel of experts to hear both sides of the case and make recommendations back to the Council.

The Council can then either adopt the panel's findings or make its own recommendations, including authorization of the United States to withdraw trade concessions of interest to the EC as a compensating measure.

Meanwhile, under the provisions of section 301, the U.S. trade representative would have 30 days following completion of the GATT dispute settlement process to make recommendations to the President concerning any remedial (retaliatory) actions by the United States against the Community if the latter fails to cease its unfair trade practices. Obviously the findings of the GATT Council as to whether the Community has violated its international obligations would be an important factor that the President would weigh.

Although the procedure I have just described sounds dry and legalistic, everyone in this room undoubtedly realizes that this 301 case has been pending since 1976 because it raises difficult issues. First of all, citrus is an important industry in the economically least advanced regions of the Community. Italy, and now Greece, favor strongly protectionist citrus policies. Beyond this, both the United States and the EC have believed it in their mutual interests to avoid a GATT dispute that could raise serious problems for the trade and cooperation agreements between the EC and (NOW) some 12 Mediterranean countries. We and the EC have a stake in economic progress, peace and security in that part of the world, goals that are furthered by EC-Mediterreanan cooperation. It was largely a result of this mutual perception that the EC agreed to the series of duty reductions prior to 1976 described earlier in my statement. What unfortunately has apparently changed, is the willingness of the EC to continue the negotiating process in recognition of the fact

that the discriminatory duties are contributing to declining U.S. market shares for key products (lemons, oranges, and orange and grapefruit juice), and in recognition of the inevitable worsening of the problem that will occur with Spanish entry into the Community. Compounding our problems, the EC has also extended citrus preferences to additional countries since 1975 and has increased the amount of some citrus preferences for other countries.

We sought throughout the multilateral trade negotiations to resolve this issue by obtaining an elimination of the import duty discrimination. It was only when the attempts failed and post-MTN consultations also yielded nothing positive that we decided to resort to formal dispute settlement.

We intended to hold the EC to its international responsibilities under the GATT and to take whatever other actions may be necessary to try to resolve our citrus problems. In the words of Ambassador Brock, However,

"* * * Retaliation is not a preferred result in any 301 case. Rather our goal is to eliminate or modify a foreign practice which is adversely affecting U.S. interests. The authority to retaliate conferred by section 301 is intended to provide the necessary leverage to obtain this result." (Given before the Senate Finance Committee, Subcommittee on International Trade, February 11, 1982.)

STATEMENT OF JAMES E. EMERSON, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, FLORIDA CITRUS PACKERS

Good morning. Senator Hawkins, my name is James E. Emerson. I am Executive Vice President and general manager of Florida Citrus Packers, a nonprofit voluntary member trade association representing the fresh citrus packing and shipping industry of Florida. The 82 companies which constitute the membership of Florida Citrus Packers account for approximately 90 percent by volume, of the fresh citrus which is shipped on an annual basis from our state.

We appreciate the opportunity to discuss our concerns and to review the continuing difficulties which are encountered by Florida shippers attempting to compete in the Common Market.

Because of time limitations, I will forego a review of the size and magnitude of Florida's citrus industry. I think you gentlemen, and certainly Senator Hawkins, are quite aware of the importance of this industry to Florida's economy, but perhaps more importantly to the subject of this hearing you recognize the tremendous role which agriculture has played with respect to the nation's balance of payments situation. Agriculture in general, and Florida's citrus industry, in particular, have the capacity to significantly expand exports which will help to move the ledger balance back in favor of the U.S. with our trading partners around the world. We are ready and willing, but we need help from our government to bring the necessary pressure to bear in those areas where unjustified tariffs are applied and preferential concessions are granted to certain producing countries to the exclusion of others.

With respect to fresh oranges, the European Community imposes a seasonal adjusting tariff which ranges from a high of 20 percent ad valorem during the period October 16 through March 31, down to a low of 4 percent for the period May 16 through October 15. This time frame is especially punitive to Florida fresh orange shippers because the highest tariff schedule corresponds directly with our major shipping season.

Of greater concern and detriment to the U.S. fresh citrus exporting industry, however, are the preferential concessions which are granted to certain non-member Mediterranean countries by the EEC. For example, Algeria, Morocco and Tunisia enter the EC at a duty which is five times less than that assessed against U.S. oranges. Shipments from Israel, Egypt, Cyprus, Lebanon, Spain and Turkey also enjoy a tariff rate which is much more favorable than that which is levied against U.S. orange imports. (12 vs. 20 percent).

It's easy to see that these various perferential concessions place the U.S. orange producer at a distinct and immediate competitive disavantage. When freight rates are added to the total cost of the U.S. citrus, it creates an almost impossible situation.

We contend here today and have so expressed in petitions and position documents which have been filed on behalf of the Florida citrus industry over the past 6 years, that these preferential concessions granted to certain non-member countries are illegal and in direct violation of GATT.

Because of these restrictive trading practices, U.S. produce exports to the EC in the past decade have had their growth rate curtailed more than any other U.S. commodity. U.S. fruit and vegetable growers supply a mere 2 to 3 percent of the community's produce imports, which is far less than the U.S.'s 17 percent share of total EC agricultural imports.

The demand for U.S. fruit and vegetables has grown very slowly in the EC, more so than U.S. sales to other areas. The result has produced an actual decline from 1970 when the EC accounted for 13 percent of U.S. produce exports to the current level of only 10 percent.

Our poor record in the EC is not due to insufficient supplies. Total U.S. exports of fresh produce exceeded $1.2 billion in fiscal 1981 but of this amount, only about $115 million was exported to the EC, less than 10 percent!!

On the other hand, in Japan for example, we have seen U.S. sales of fresh produce in that market grow from only $14 million in 1970 to $170 million in 1980, a 12-fold increase. The difference is largely due to the complex common agricultural policy of the EC and its restrictive trading practices.

If existing fresh produce policies are not changed, the U.S.'s ability to penetrate EC markets in the future is likely to be even less than in the past. The anticipated entry of Spain into the Common Market in the near future certainly complicates the situation because of the nation's ability to supply most of the EC's fruit and vegetable needs.

In conclusion, we feel that the EC's current preferential tariff structure for citrus producing countries in the Mediterranean area are arbitrary and discriminatory. Moreover, we contend that the freight rate differential for Mediterranean countries versus the U.S. are such that there is a built-in competitive advantage for these citrus producing areas even without the use of tariff concessions.

We therefore urge our negotiators to vigorously pursue the elimination of tariff preferences enjoyed by selected non-member countries to the detriment of the U.S. orange producer.

We respectfully encourage your pursuit of much-needed agricultural policy changes within the EC through all available channels.

Thank you!

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